

# Holomua



Employees' Retirement System  
of the State of Hawaii



Active Members

March 2009

## Providing a secure future in an uncertain economy

Most investors – and public pension funds – have been negatively affected by the volatility and marked downturn of the financial market. ERS is no exception. But although the downturn in the economy may pose long-term funding issues, we are able to average out our investment returns over a multi-year period and sustain ourselves during market volatility.

The ERS' investment returns for the five fiscal years ending on June 30, 2008, averaged 10.1% each year. However, the sharp decline in the economy and global financial markets during the second half of 2008 decreased our investment portfolio by 19.4%. It's interesting to note that even though the ERS portfolio recently exhibited declining performance, we still outperformed more than three quarters of the large public pension funds over the past five years.

The dramatic stock market slide will almost certainly increase our unfunded liability – those pension payments that will have to be made to future retirees. However, the new long-term funding methodology that was implemented in July 2005 to strengthen the ERS financially and the moratorium on all retirement benefit enhancement proposals until January 2011 will help reduce our unfunded liability over time.

Providing a secure future for our membership is a responsibility we take quite seriously. It is important to note that accrued ERS benefits are protected by the State constitution and are separate from the health benefits received at retirement. Health benefits are currently under the purview of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and the Voluntary Employees Beneficiary Association Trust (VEBA) for teachers.

In these uncertain times we will continue to take steps to ensure that sufficient funds are available to pay the benefits promised to our current and future retirees.

Jackie Ferguson-Miyamoto, Chair  
Board of Trustees

**ERS Board of Trustees:**  
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### Inside this issue:

Beneficiary  
Designations

Hybrid Plan  
Conversion

ERS  
Financial  
Reports

# Why your beneficiary designation is so important

"I'm sure my husband meant to do it, but he just didn't get around to updating his beneficiary designation," says Nora. Nora's husband, Tom, planned to retire next year after 33 years of service but died unexpectedly. When Tom first began his State job, he named both his wife and daughter as co-beneficiaries. In his case, the death benefit payable was a lump sum payment of \$151,000 (Tom's contributions and accrued interest) which was paid equally to his wife and daughter in 50% shares. If Tom had updated his beneficiary designation and named his wife Nora as his beneficiary, instead of a lump sum payment, she could have elected to receive a lifetime monthly pension of \$1,800. "The lifetime pension would have made life a lot easier," notes Nora.

Unfortunately, what happened to Nora is not uncommon. It could even happen to you. Here is some information about how careful you need to be when designating a beneficiary for your ERS benefits.

If you are a **Contributory** or **Hybrid Plan member** with at least 10 years of credited service or you are eligible to retire, you need to be aware that your beneficiary may elect to receive a lifetime pension instead of a lump sum payment. **However, the lifetime pension will be available only if you designate ONE person as your beneficiary.** A trust is not a person and cannot receive a lifetime pension.

It is very important that we have your current and correct beneficiary designation. If you have not completed the goldenrod Form 1-A, "Designation of Beneficiary," or if you haven't updated it recently, now's the time to do it. The fact is, if you were to pass away without current and correct beneficiary information on file with ERS, your death benefits could be paid to your estate, which may result in legal fees and other costs of probate. You may change your beneficiary designation at any time. You should file a new beneficiary designation if your beneficiary dies or if there is a change in your marital status or reciprocal beneficiary relationship (as defined in chapter 572C-4, Hawaii Revised Statutes). If there is a change in your marital status or reciprocal beneficiary relationship, you should file a new beneficiary designation even if you are not changing your beneficiary. The Form 1-A and instructions for completing it are available on our website at [www4.hawaii.gov/ers](http://www4.hawaii.gov/ers) or you may call our office and ask to have the form mailed to you. Notary service at no cost is available at any ERS office.

## *Example #1:*

*James designated his wife, Mary, and son, John, as co-beneficiaries. In the event of James' death, his wife and son will each receive a lump sum payment equal to 50% of his contributions and accrued interest. Even if James has more than 10 years of credited service and is eligible to retire, the lifetime monthly pension would NOT be payable because he did **not** designate **ONE** person as his beneficiary.*

## *Example #2:*

*Jane designated her spouse, Donald, as her beneficiary. In the event of Jane's death, Donald will be eligible to receive a lump sum payment of her contributions and accrued interest **OR** a lifetime monthly pension since Jane had more than 10 years of credited service. As a surviving spouse, Donald may also be eligible for health benefits until remarriage.*

If you are a **Noncontributory Plan member**, you are not able to make a beneficiary designation before you retire because the law specifies who the ERS will pay in the event of your death: your spouse, or reciprocal beneficiary, and any dependent children under age 18.

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## Some Clarification about Hybrid Plan Conversion

Our September 2008 Holomua newsletter contained information on converting Noncontributory Plan service to Hybrid Plan service. ERS received a number of questions about this, so we would like to clarify which ERS members will be eligible to participate in the conversion process.

*Continued on next page*

To convert Noncontributory service to Hybrid service, qualified ERS members will have to meet the following minimum requirements:

- 1) *Been an actively employed ERS member on June 30, 2006,*
- 2) *Made an election to transfer to the Hybrid Plan before July 1, 2006,*
- 3) *Have Noncontributory Plan service prior to July 1, 2006, and*
- 4) *Be an actively employed ERS member six months prior to the Board's statewide announcement of conversion approval. (This six-month date may change subject to possible 2009 legislation.)*

In addition to the above, Hybrid Plan members who retire prior to converting their Noncontributory service will not be eligible to upgrade any of their service.

ERS anticipates that many of the approximately 24,400 eligible Hybrid Plan members are planning to upgrade all or a portion of their Noncontributory service. We are currently in the process of procuring a consultant to assist us with the conversion project. As soon as the consultant is hired, ERS and the consultant will develop a timeline for the communication campaign. We will keep you informed as more information becomes available.

ERS will be using the address we have on file for you for the mailing of your Hybrid Plan conversion informational material, so please be sure that your employer has your current mailing address. If you need to update your mailing address, contact your personnel office directly.

## ERS Financial Reports

COMPARATIVE STATEMENTS OF PLAN NET ASSETS (summarizes what ERS owns and what it owes at the end of fiscal years 2008 and 2007)		
	As of June 30, 2008	As of June 30, 2007
Cash and short-term investments	\$ 692,390,538	\$ 762,030,879
Receivables	375,845,548	253,093,106
Investments, at fair value	10,767,279,097	11,122,305,506
Invested securities lending collateral	1,235,028,470	1,457,143,243
Equipment, net of depreciation	11,358,647	9,610,766
<b>Total Assets</b>	<b>13,081,902,300</b>	<b>13,604,183,500</b>
Disbursements in excess of cash balances	1,592,615	2,853,487
Accounts and other payables	44,341,678	57,374,084
Investment commitments payable	954,150,572	624,395,820
Securities lending collateral	1,235,028,470	1,457,143,243
<b>Total liabilities</b>	<b>2,235,113,335</b>	<b>2,141,766,634</b>
<b>Net assets held in trust for pension benefits</b>	<b>\$ 10,846,788,965</b>	<b>\$ 11,462,416,866</b>

COMPARATIVE STATEMENTS OF CHANGES IN PLAN NET ASSETS (summarizes the flow of money in and out of the ERS in fiscal years 2008 and 2007)		
	Year Ended June 30, 2008	Year Ended June 30, 2007
Employer contributions	\$ 488,770,028	\$ 454,494,286
Employee contributions	163,375,639	144,658,185
Net investment gains (losses)	(470,940,184)	1,701,481,368
Securities lending income	9,877,104	3,475,900
<b>Total additions</b>	<b>191,082,587</b>	<b>2,304,109,739</b>
Benefit payments	792,312,830	761,004,748
Refunds of member contributions	3,668,857	3,497,590
Administrative expenses	10,728,801	9,601,756
<b>Total deductions</b>	<b>806,710,488</b>	<b>774,104,094</b>
Net increase (decrease)	(615,627,901)	1,530,005,645
Net assets held in trust for pension benefits		
Beginning of year	11,462,416,866	9,932,411,221
End of year	<b>\$ 10,846,788,965</b>	<b>\$ 11,462,416,866</b>



**Employees' Retirement System**  
of the State of Hawaii



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201 Merchant Street, Ste. 1400 • Hon, HI 96813-2980

# Holomua

Active Members



*March 2009*

## How to Contact Us

**Monday-Friday 7:45 a.m. - 4:30 p.m.**

**Oahu** Office, Phone: (808) 586-1735

**Kauai** Office, Phone: (808) 274-3010

**Hawaii** Office, Phone: (808) 974-4077

**Maui** Office, Phone: (808) 984-8181

**Molokai & Lanai**, toll free to Oahu: 1-800-468-4644, ext 61735

**Continental U.S.** toll free to Oahu: 1-888-659-0708